

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

28-7516

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Traverse City Light and Power</b>		County <b>Grand Traverse</b>
Audit Date <b>06/30/04</b>	Opinion Date <b>11/19/04</b>	Date Accountant Report Submitted to State: <b>12/30/04</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>REHMANN ROBSON</b>			
Street Address <b>250 E FRONT STREET</b>	City <b>TRAVERSE CITY</b>	State <b>MI</b>	ZIP <b>49684</b>
Accountant Signature <i>Annette Eustice, CPA, CGFM</i>			

# **TRAVERSE CITY LIGHT AND POWER**

**(A Component Unit of the City of Traverse City, Michigan)**

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**REHMANN ROBSON**

*Certified Public Accountants*

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An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

November 19, 2004

Honorable Chairman and Members  
Light and Power Board  
City of Traverse City, Michigan

We have audited the accompanying financial statements of the *Traverse City Light and Power* (a component unit of the City of Traverse City, Michigan) (the "Department") as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the *Traverse City Light and Power* at June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements of *Traverse City Light and Power*. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly presented in all material respects in relation to the financial statements taken as a whole.

The *Traverse City Light and Power* has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

*Rehmann Robson*

## **FINANCIAL STATEMENTS**

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## BALANCE SHEETS

ASSETS	June 30,	
	2004	2003
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,382,900	\$ 7,653,101
Investments	10,815,289	7,009,757
Receivables:		
Customer, less allowances of \$51,172 and \$47,162 respectively, for uncollectible accounts	2,431,759	2,393,935
Accrued interest	3,335	44,827
Taxes	1,950	3,921
Other	31,356	11,557
Inventories	700,150	688,065
Prepaid expenses	16,307	21,688
<b>Total current assets</b>	<b>18,383,046</b>	<b>17,826,851</b>
<b>Restricted assets, including cash and cash equivalents of   \$320,544 and \$306,708, respectively</b>	<b>650,419</b>	<b>636,583</b>
<b>Long-term assets</b>		
Long-term advances - due from primary government	2,618,830	2,642,773
Deferred charges	68,070	102,104
Land	843,173	843,278
Construction in progress	1,579,283	917,110
Capital assets, net	31,366,307	31,334,549
<b>Total long-term assets</b>	<b>36,475,663</b>	<b>35,839,814</b>
<b>Total assets</b>	<b>\$ 55,509,128</b>	<b>\$ 54,303,248</b>

The accompanying notes are an integral part of these financial statements.

	June 30,	
	2004	2003
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,669,249	\$ 2,018,547
Accrued expenses and other liabilities	352,871	339,569
Current portion of accrued compensated absences	17,702	4,450
Due to primary government	196,695	88,355
<b>Total current liabilities</b>	<b>2,236,517</b>	<b>2,450,921</b>
<b>Liabilities payable from restricted assets</b>		
Current portion of long-term debt	295,000	280,000
Accrued interest payable	14,904	21,484
<b>Total liabilities payable from restricted assets</b>	<b>309,904</b>	<b>301,484</b>
<b>Noncurrent liabilities</b>		
Long-term debt, less current portion	310,000	605,000
Compensated absences	323,601	341,859
<b>Total non-current liabilities</b>	<b>633,601</b>	<b>946,859</b>
<b>Total liabilities</b>	<b>3,180,022</b>	<b>3,699,264</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	33,183,763	32,209,937
Restricted assets - debt service	340,515	335,099
Unrestricted	18,804,828	18,058,948
<b>Total net assets</b>	<b>52,329,106</b>	<b>50,603,984</b>
<b>Total liabilities and net assets</b>	<b>\$ 55,509,128</b>	<b>\$ 54,303,248</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2004	2003
<b>Operating revenues</b>		
Charges for services	\$ 22,219,725	\$ 20,790,396
Other	498,212	191,497
<b>Total operating revenues</b>	<b>22,717,937</b>	<b>20,981,893</b>
<b>Operating expenses</b>		
Personnel	3,211,437	2,933,975
Contractual services	867,482	702,051
Repairs and maintenance	93,855	123,880
Office supplies, insurance and other	309,128	345,670
Operating supplies	14,025,914	12,571,609
Rentals	166,836	143,950
Utilities	93,699	89,376
City fee	1,156,695	1,048,355
Depreciation and amortization	1,528,204	1,234,609
<b>Total operating expenses</b>	<b>21,453,250</b>	<b>19,193,475</b>
<b>Operating income</b>	<b>1,264,687</b>	<b>1,788,418</b>
<b>Nonoperating revenues (expenses)</b>		
Interest income	313,120	653,872
Gain on sale of capital assets	-	740,551
Rental income	14,299	14,299
Reimbursement	162,824	130,280
Interest expense and financial charges	(29,808)	(42,968)
<b>Total nonoperating revenues</b>	<b>460,435</b>	<b>1,496,034</b>
<b>Change in net assets</b>	<b>1,725,122</b>	<b>3,284,452</b>
<b>Net assets, beginning of year</b>	<b>50,603,984</b>	<b>47,319,532</b>
<b>Net assets, end of year</b>	<b>\$ 52,329,106</b>	<b>\$ 50,603,984</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2004	2003
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 22,662,285	\$ 20,776,256
Cash payments to employees	(3,203,141)	(2,882,967)
Cash payments to suppliers for goods and services	(15,912,916)	(14,201,548)
Cash payments for payment in lieu of tax	(1,048,355)	(1,019,875)
<b>Net cash provided by operating activities</b>	<b>2,497,873</b>	<b>2,671,866</b>
<b>Cash flows from non-capital financing activities</b>		
Long-term advance to primary government	23,943	22,044
Rental income	14,299	14,299
Reimbursement	162,824	130,280
<b>Net cash provided by non-capital financing activities</b>	<b>201,066</b>	<b>166,623</b>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(2,187,996)	(8,657,187)
Note principal payments	(280,000)	(270,000)
Note interest payments	(36,388)	(49,110)
Proceeds from sale of capital assets	-	953,410
<b>Net cash used in capital and related financing activities</b>	<b>(2,504,384)</b>	<b>(8,022,887)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(3,805,532)	-
Sale of investments	-	9,957,626
Investment income	354,612	611,839
<b>Net cash provided by (used in) investing activities</b>	<b>(3,450,920)</b>	<b>10,569,465</b>
Net increase (decrease) in cash and cash equivalents	(3,256,365)	5,385,067
Cash and cash equivalents, beginning of year	7,959,809	2,574,742
<b>Cash and cash equivalents, end of year</b>	<b>\$ 4,703,444</b>	<b>\$ 7,959,809</b>
<b>Balance Sheet Reconciliation</b>		
Cash and cash equivalents	\$ 4,382,900	\$ 7,653,101
Restricted assets- cash equivalents	320,544	306,708
	<b>\$ 4,703,444</b>	<b>\$ 7,959,809</b>

The accompanying notes are an integral part of these financial statements.



# TRAVERSE CITY LIGHT AND POWER DEPARTMENT

(A Component Unit of the City of Traverse City, Michigan)

## STATEMENTS OF CASH FLOWS

<b>Cash flows from operating activities</b>		
Operating income	\$ 1,264,687	\$ 1,788,418
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,528,204	1,234,609
Changes in operating assets and liabilities which provided (used) cash		
Receivables	(55,652)	(205,637)
Inventories	(12,085)	423,341
Prepaid expenses	5,381	(3,148)
Accounts payable	(349,298)	(645,205)
Accrued expenses and other liabilities	13,302	55,233
Due to other governments	108,340	28,480
Compensated absences	(5,006)	(4,225)
<b>Net cash provided by operating activities</b>	<b><u>\$ 2,497,873</u></b>	<b><u>\$ 2,671,866</u></b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF ACCOUNTING POLICIES

#### Organization

Under provisions of the City of Traverse City ("City") Charter, the Light and Power Board was created having jurisdiction and control of the *Traverse City Light and Power* ("Department"). The Board consists of seven members (two of which are City commissioners) and one ex-officio member (the City Manager). The Department's annual budget is approved by the City Commission. The Department is required to pay 5% of its gross revenue annually to the City's General Fund for payment in lieu of taxes. For fiscal 2004 and 2003, transfers of \$1,156,595 and \$1,048,355, respectively, were made to the City.

The Department is a discrete component unit of the City, as the City is financially accountable for the operations of the Department.

#### Basis of Accounting

The Department uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Department considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

#### Investments

Investments are stated at fair value. For fair value, securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The change in fair value of the investments from the beginning of the year to the end of the year is reported in the "Nonoperating revenues (expenses)" section of the Statements of Revenues, Expenses and Changes in Net Assets".

#### Inventories

Inventories are valued at cost (first-in, first-out), not in excess of market. Expenditures for maintenance and office supplies are charged to expenses upon purchase.

#### Deferred Charges

Deferred charges represent costs incurred in refinancing bonds in 1993 and are being amortized over the life of the bond issue.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated lives of the related assets as follows:

	<u>Years</u>
Buildings and structures	20-50
Power production equipment and distribution system	5-50

### Compensated Absences

Compensated absences consist of accumulated unpaid vacation, short-term leave and sick pay. Accumulated unpaid vacation and short-term leave are accrued when earned and sick pay is accrued up to a maximum when it is probable that the benefit will be paid to the employee, in accordance with Governmental Accounting Standards Board Statement No. 16 - *Accounting for Compensated Absences*.

### Operating Revenue versus Non-Operating Revenue

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department, are charges to customers for sales and services. Operating expenses for the Department include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### GASB 20

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector guidance.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### 2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, investments and restricted assets at June 30, 2004 and 2003 are composed of the following:

<u>June 30, 2004</u>	<u>Cash and cash Equivalents</u>	<u>Investments</u>	<u>Restricted Assets</u>	<u>Totals</u>
Deposits	\$ 4,181,087	\$ 1,502,548	\$ 320,544	\$ 6,004,179
Investments	201,363	9,312,741	329,875	9,843,979
Petty cash	<u>450</u>	<u>-</u>	<u>-</u>	<u>450</u>
<b>Total</b>	<b><u>\$ 4,382,900</u></b>	<b><u>\$ 10,815,289</u></b>	<b><u>\$ 650,419</u></b>	<b><u>\$ 15,848,608</u></b>
<u>June 30, 2003</u>	<u>Cash and cash Equivalents</u>	<u>Investments</u>	<u>Restricted Assets</u>	<u>Totals</u>
Deposits	\$ 2,557,724	\$ 1,156,568	\$ 306,708	\$ 4,021,000
Investments	5,090,733	5,853,189	329,875	11,273,797
Petty cash	<u>4,644</u>	<u>-</u>	<u>-</u>	<u>4,644</u>
<b>Total</b>	<b><u>\$ 7,653,101</u></b>	<b><u>\$ 7,009,757</u></b>	<b><u>\$ 636,583</u></b>	<b><u>\$ 15,299,441</u></b>

Deposits consist of various interest bearing cash accounts and certificates of deposit, held by the City Treasurer. The insured and uninsured bank balances for the Department deposits are not available as these deposits are held in pools with other City funds.

The Department is authorized by Michigan Public Act 196 of 1998 and Public Act 20 of 1943 to invest surplus monies in U.S. bonds and notes, certain commercial paper, mutual funds and investment pools that are composed of authorized investment vehicles.

The Department's investments are categorized to give an indication of the level of risk assumed by the entity at June 30, 2004 and 2003. Risk category 1 includes those investments that meet the following criterion:

- a. Insured or
- b. Registered,
- c. Held by the City or its agent in the City's name.

Risk categories 2 and 3 include investments, which are neither insured nor registered. Category 2 includes investments which are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty, or
- b. The counterparty's trust department (or agent) but not in the City's name.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

Investments at June 30, 2004 were reported as follows:

	<u>Category</u>			<u>Carrying/Fair Value Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Uncategorized to risk Sweep funds	\$ -	\$ -	\$ -	\$ 201,363
U.S. Govt. Securities	<u>9,642,616</u>	<u>-</u>	<u>-</u>	<u>9,642,616</u>
	<u>\$ 9,642,616</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,843,979</u>

Investments at June 30, 2003 were reported as follows:

	<u>Category</u>			<u>Carrying/Fair Value Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Uncategorized to risk Sweep funds	\$ -	\$ -	\$ -	\$ 5,090,733
U.S. Govt. Securities	<u>6,183,064</u>	<u>-</u>	<u>-</u>	<u>6,183,064</u>
	<u>\$ 6,183,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,273,797</u>

The sweep fund accounts are held by Huntington and Irwin Union Banks in their investment pool accounts, which consists of investments allowed by the State of Michigan for investment of surplus funds by local units of government.

### 3. INVENTORIES

Inventories in the amount of \$700,150 and \$688,065, at June 30, 2004 and 2003, respectively, consist of materials and supplies.

### 4. RESTRICTED ASSETS

The Department accounts for its operations and maintenance activities, including the funding of reserves, as required by the bond ordinances and other authorities. The Department's restricted assets consist of the following at June 30:

	<u>2004</u>	<u>2003</u>
Bond reserve account	\$ 329,875	\$ 329,875
Bond and interest redemption	<u>320,544</u>	<u>306,708</u>
Total	<u>\$ 650,419</u>	<u>\$ 636,583</u>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### 5. CAPITAL ASSETS

At June 30, 2004 capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated – land	\$ 843,278	\$ -	\$ (105)	\$ 843,173
Construction in progress	<u>917,110</u>	<u>2,158,891</u>	<u>(1,496,718)</u>	<u>1,579,283</u>
Total capital assets not being depreciated	<u>1,760,388</u>	<u>2,158,891</u>	<u>(1,496,823)</u>	<u>2,422,456</u>
Capital assets being depreciated				
Buildings and improvements	6,213,049	54,481	-	6,267,530
Equipment and distribution system	<u>46,532,300</u>	<u>1,475,947</u>	<u>(4,500)</u>	<u>48,003,747</u>
Total capital assets being depreciated	<u>52,745,349</u>	<u>1,530,428</u>	<u>(4,500)</u>	<u>54,271,277</u>
Less accumulated depreciation for				
Buildings and improvements	(2,121,914)	(144,037)	-	(2,265,951)
Equipment and distribution system	<u>(19,288,886)</u>	<u>(1,350,133)</u>	<u>-</u>	<u>(20,639,019)</u>
Total accumulated depreciation	<u>(21,410,800)</u>	<u>(1,494,170)</u>	<u>-</u>	<u>(22,904,970)</u>
Total capital assets being depreciated, net	<u>31,334,549</u>	<u>36,258</u>	<u>(4,500)</u>	<u>31,366,307</u>
<b>Business-type activities capital assets, net</b>	<u><b>\$ 33,094,937</b></u>	<u><b>\$ 2,195,149</b></u>	<u><b>\$ (1,501,323)</b></u>	<u><b>\$33,788,763</b></u>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

At June 30, 2003 capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated – land	\$ 835,312	\$ 7,966	\$ -	\$ 843,278
Construction in progress	<u>5,188,957</u>	<u>7,625,649</u>	<u>( 11,897,496)</u>	<u>917,110</u>
 Total capital assets not being depreciated	 <u>6,024,269</u>	 <u>7,633,615</u>	 <u>( 11,897,496)</u>	 <u>1,760,388</u>
 Capital assets being depreciated				
Buildings and improvements	3,084,050	3,606,664	(477,665)	6,213,049
Equipment and distribution system	<u>37,217,896</u>	<u>9,314,404</u>	<u>-</u>	<u>46,532,300</u>
Total capital assets being depreciated	<u>40,301,946</u>	<u>12,921,068</u>	<u>(477,665)</u>	<u>52,745,349</u>
 Less accumulated depreciation for				
Buildings and improvements	(2,290,386)	(96,335)	264,807	(2,121,914)
Equipment and distribution system	<u>(18,184,645)</u>	<u>(1,104,241)</u>	<u>-</u>	<u>(19,288,886)</u>
Total accumulated depreciation	<u>(20,475,031)</u>	<u>(1,200,576)</u>	<u>264,807</u>	<u>(21,410,800)</u>
 Total capital assets being depreciated, net	 <u>19,826,915</u>	 <u>11,720,492</u>	 <u>(212,858)</u>	 <u>31,334,549</u>
 <b>Business-type activities capital assets, net</b>	 <b><u>\$ 25,851,184</u></b>	 <b><u>\$19,354,107</u></b>	 <b><u>\$(12,110,354)</u></b>	 <b><u>\$33,094,937</u></b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### 6. LONG-TERM DEBT

Long-term debt at June 30, 2004 consists of the following:

	Electric Utility System Revenue Refunding Bonds	Compensated Absences
Beginning Balance, July 1, 2003	\$ 885,000	\$ 346,309
Additions	-	-
Reductions	(280,000)	(5,006)
Ending Balance, June 30, 2004	<u>\$ 605,000</u>	<u>\$ 341,303</u>
Due within one year	<u>\$ 295,000</u>	<u>\$ 17,702</u>

Long-term debt at June 30 2003, consists of the following:

	Electric Utility System Revenue Refunding Bonds	Compensated Absences
Beginning Balance, July 1, 2002	\$ 1,155,000	\$ 350,534
Additions	-	-
Reductions	(270,000)	(4,225)
Ending Balance, June 30, 2003	<u>\$ 885,000</u>	<u>\$ 346,309</u>
Due within one year	<u>\$ 280,000</u>	<u>\$ 4,450</u>

The original issue of Electric Utility System Revenue Refunding Bonds was \$2,420,000 in 1993, with principal due in annual installments of \$20,000 to \$310,000 through July 2005, and interest at 3.10% to 5% payable semi-annually.



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

In 1986, the Department defeased Series 1984 revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Department's financial statements. At June 30, 2004 and 2003, \$900,000 and \$1,150,000, respectively, of the Series 1984 bonds outstanding are considered defeased.

The aggregate amounts of bonds payable maturing in future years are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	295,000	22,654
2006	<u>310,000</u>	<u>7,750</u>
<b>Total</b>	<b><u>\$ 605,000</u></b>	<b><u>\$ 30,404</u></b>

### 7. POWER SUPPLY PURCHASE

The Department along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency ("MPPA"). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Company Campbell 3 plant and an 18.61% undivided interest in the Detroit Edison Company Belle River project, and 75.9% undivided interest in the Combustion Turbine project.

In 1983, the Department entered into a 35 year power supply and project support contract with MPPA. Under the agreement, *Traverse City Light and Power* will purchase 26.35% of the energy generated by the Campbell 3 plant and 4.53% of the energy generated by the Belle River plant.

For the years ended June 30, 2004 and 2003, *Traverse City Light and Power* recognized expenses totaling \$9,820,828 and \$7,632,420, respectively, to purchase power under the terms of the contract. The price of the power was calculated on a basis, as specified in the contract, to enable MPPA to recover its production, transmission and debt service costs.

Under the terms of the contract, the Department must make minimum annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased). The estimated total annual debt payments (assuming no early calls or refinancing of existing revenue bonds) are as follows:

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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<u>Year Ending December, 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,913,364	\$ 2,253,101	\$ 4,166,465
2006	2,002,074	2,161,228	4,163,302
2007	2,100,144	2,064,643	4,164,787
2008	2,203,788	1,963,899	4,167,687
2009	2,313,742	1,851,640	4,165,382
2010-2014	11,582,690	7,560,017	19,142,707
2015-2019	9,924,039	4,746,552	14,670,591
2020-2024	7,145,985	2,542,470	9,688,455
2025-2027	<u>5,252,280</u>	<u>560,853</u>	<u>5,813,133</u>
	<b><u>\$44,438,106</u></b>	<b><u>\$ 25,704,403</u></b>	<b><u>\$70,142,509</u></b>

In prior years, the MPPA over-charged its member utilities on their power sales contract agreements. Because of this, MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The Department's share of this trust fund was \$2,258,219.

### 8. RETIREMENT PLAN

Through the City, the Department participates in the Municipal Employees' Retirement System ("MERS"), a defined benefit plan that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed annually. The Department's contributions to the plan during the years ended June 30, 2004 and 2003 were \$345,602 and \$289,862 respectively. The disclosure requirements of the Governmental Accounting Standards Board Statement Number 27 are outlined in the City's Financial Statements.

### 9. COMMITMENTS

In September 1994, the Department purchased \$840,000 of distribution facilities located within the City of Traverse City from Consumers Power Company ("Consumers"). The purchase was made in connection with the settlement of litigation initiated by the Department against Consumers. The purchase was completed under the auspices of the Michigan Public Service Commission and approved by the Department Board. The Department will take possession of these facilities in three stages: one-third in September, 1994; one-third in September, 2004; and one-third in September, 2014.

#### Construction

During 2004, the Department entered into the following contracts:

Hydaker-Wheatlake Company for the installation of a GT2 transmission line in the amount of \$549,161. No project costs were expended through June 30, 2004. The project is expected to be completed during fiscal 2005.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### Property

During fiscal 2004, the Department entered into an agreement to lease various parcels of property that requires annual rental payments of \$1. Under the lease agreement, the Department must maintain the property, carry adequate insurance and pay all assessments and property taxes. The fair value of the lease is not considered by management to be significant in any one year and, therefore, is not recorded as contribution revenue and lease expense. This lease expires July 2023.

### 10. CONTINGENCIES

In the normal course of its activities, the Department becomes a party in various legal actions and claims, some of which are uninsured. While the outcome of these actions and claims is not expected to have a material effect on the financial position of the Department, the Board has established a designation of \$2,855,398 and \$2,730,596 within net assets at June 30, 2004 and 2003, respectively to cover the potential impact of current and future uninsured claims.

### 11. RISK OF LOSS

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Department is covered for these losses through the City of Traverse City via the Michigan Municipal Liability and Property pool, Michigan Municipal Workers Compensation Self Insurers Fund and commercial health insurance.

### 12. DESIGNATIONS OF NET ASSETS

The following are designations of unrestricted net assets established by the Board:

	<u>June 30.</u> <u>2004</u>	<u>June 30.</u> <u>2003</u>
Maintenance contingencies	\$ 2,867,337	\$ 2,767,337
Bayside decommissioning	1,500,000	1,400,000
Hydro decommissioning	850,000	750,000
Emergencies	100,000	100,000
Uninsured claims	2,855,398	2,730,596
Capital expansion	<u>6,400,000</u>	<u>6,352,000</u>
<b>Total</b>	<b><u>\$14,572,735</u></b>	<b><u>\$ 14,099,933</u></b>

# **TRAVERSE CITY LIGHT AND POWER**

**(A Component Unit of the City of Traverse City, Michigan)**

## **NOTES TO FINANCIAL STATEMENTS**

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### **13. SUBSEQUENT EVENT**

Subsequent to June 30, 2004 the City executed an agreement to sell portions of the Bayside Power Plant building and selected equipment. Total proceeds received from the sale amounted to \$400,000.

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# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION FOR THE YEAR ENDED JUNE 30, 2004 (WITH COMPARATIVE NET BALANCES AT JUNE 30, 2003)

	Year Ended June 30, 2004			
	Capital Assets - Cost			
	Balance at June 30, 2003	Additions/ Transfers	Deletions/ Transfers	Balance at June 30, 2004
Land	\$ 597,642	\$ -	\$ 105	\$ 597,537
Land - coal dock	245,636	-	-	245,636
<b>Total land</b>	<b>843,278</b>	<b>-</b>	<b>105</b>	<b>843,173</b>
<b>Buildings</b>				
Steam plant	1,866,905	-	-	1,866,905
Keystone plant	3,191	-	-	3,191
Brown Bridge	2,701	-	-	2,701
Distribution plant	3,600,179	40,607	-	3,640,786
Water filtration	240	-	-	240
Office structures	30,044	13,874	-	43,918
Burke coal dock	709,789	-	-	709,789
<b>Total buildings</b>	<b>6,213,049</b>	<b>54,481</b>	<b>-</b>	<b>6,267,530</b>
<b>Equipment and distribution system</b>				
Steam plant	7,544,366	435	-	7,544,801
Sabin Dam	1,442,689	-	-	1,442,689
Boardman Dam	2,630,952	-	-	2,630,952
Keystone plant	58,130	-	-	58,130
Keystone interconnect	503,445	-	-	503,445
Brown Bridge	145,372	-	-	145,372
Wind generation unit	763,860	-	-	763,860
Transmission	32,598,849	1,464,757	-	34,063,606
General	828,194	10,701	4,500	834,395
Coal dock	11,776	54	-	11,830
Ash pit wells	4,667	-	-	4,667
<b>Total equipment and distribution system</b>	<b>46,532,300</b>	<b>1,475,947</b>	<b>4,500</b>	<b>48,003,747</b>
<b>Construction-in-progress</b>	<b>917,110</b>	<b>2,158,891</b>	<b>1,496,718</b>	<b>1,579,283</b>
<b>Total</b>	<b>\$ 54,505,737</b>	<b>\$ 3,689,319</b>	<b>\$ 1,501,323</b>	<b>\$ 56,693,733</b>

Accumulated Depreciation			Capital Assets - Net		
Balance at June 30, 2003	Current Depreciation	Deletions	Balance at June 30, 2004	Balance at June 30, 2004	Balance at June 30, 2003
\$ -	\$ -	\$ -	\$ -	\$ 597,537	\$ 597,642
-	-	-	-	245,636	245,636
-	-	-	-	843,173	843,278
1,610,796	15,523	-	1,626,319	240,586	256,109
3,191	-	-	3,191	-	-
2,174	52	-	2,226	475	527
54,000	108,614	-	162,614	3,478,172	3,546,179
207	4	-	211	29	33
19,965	560	-	20,525	23,393	10,079
431,581	19,284	-	450,865	258,924	278,208
2,121,914	144,037	-	2,265,951	4,001,579	4,091,135
6,326,644	85,470	-	6,412,114	1,132,687	1,217,722
712,329	43,281	-	755,610	687,079	730,360
1,404,211	96,292	-	1,500,503	1,130,449	1,226,741
57,983	12	-	57,995	135	147
384,180	15,103	-	399,283	104,162	119,265
94,558	3,556	-	98,114	47,258	50,814
91,665	103,121	-	194,786	569,074	672,195
9,589,851	967,184	-	10,557,035	23,506,571	23,008,998
611,022	36,111	-	647,133	187,262	217,172
11,776	3	-	11,779	51	-
4,667	-	-	4,667	-	-
19,288,886	1,350,133	-	20,639,019	27,364,728	27,243,414
-	-	-	-	1,579,283	917,110
\$ 21,410,800	\$ 1,494,170	\$ -	\$ 22,904,970	\$ 33,788,763	\$ 33,094,937

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2004  
(WITH COMPARATIVE BALANCES AT JUNE 30, 2003)

	<b>2004 Budget</b>	<b>2004 Actual</b>	<b>Actual Over (Under)</b>	<b>2003 Actual</b>
Operating revenues - sales				
Residential	\$ 3,674,000	\$ 3,722,019	\$ 48,019	\$ 3,371,829
Commercial	10,267,250	11,056,127	788,877	10,522,447
Industrial	6,900,000	6,801,266	(98,734)	6,194,246
Public authority	446,250	368,941	(77,309)	432,030
Street lighting	174,350	182,922	8,572	180,257
Yard lights	86,550	88,450	1,900	89,587
<b>Total operating revenues - sales</b>	<b>21,548,400</b>	<b>22,219,725</b>	<b>671,325</b>	<b>20,790,396</b>
Other operating revenues				
Forfeited discounts	50,000	48,358	(1,642)	47,048
Merchandise and jobbing	60,000	61,619	1,619	70,398
Sale of scrap	6,000	14,873	8,873	19,017
Recovery of bad debts	2,000	723	(1,277)	360
Miscellaneous	40,000	372,639	332,639	54,674
<b>Total other operating revenues</b>	<b>158,000</b>	<b>498,212</b>	<b>340,212</b>	<b>191,497</b>
Nonoperating revenues				
Interest income	525,000	313,120	(211,880)	653,872
Gain on sale of fixed assets	-	-	-	740,551
Rental income	2,000	-	(2,000)	-
Reimbursement	-	162,824	162,824	130,280
Pole rental income	14,000	14,299	299	14,299
<b>Total nonoperating revenues</b>	<b>541,000</b>	<b>490,243</b>	<b>(50,757)</b>	<b>1,539,002</b>
<b>Total revenues</b>	<b>22,247,400</b>	<b>23,208,180</b>	<b>960,780</b>	<b>22,520,895</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2004  
(WITH COMPARATIVE BALANCES AT JUNE 30, 2003)

	2004 Amended Budget	2004 Actual	Actual Over (Under)	2003 Actual
<b>Generation Expense</b>				
Operating				
Station labor	\$ 635,000	\$ 267,547	\$ (367,453)	\$ 510,230
Payroll taxes and fringes	243,500	146,301	(97,199)	206,196
Campbell No. 3 power	2,661,000	2,996,796	335,796	2,829,101
Belle River No. 1 power	2,941,500	2,957,045	15,545	3,004,174
Combustion turbine	2,490,000	3,866,447	1,376,447	1,799,145
Hydro fees	74,000	81,799	7,799	74,322
Purchased power	3,973,150	3,423,386	(549,764)	4,188,017
Coal	-	-	-	304,500
Utilities				
Telephone	-	7,343	7,343	3,843
Water	12,000	21,377	9,377	37,990
Coal dock	1,000	9,175	8,175	299
Miscellaneous supplies	3,500	7,306	3,806	31,893
Professional development	8,000	6,861	(1,139)	10,869
Inventory adjustments	-	10,288	10,288	25,761
Total generation operating expenses	13,042,650	13,801,671	759,021	13,026,340



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2004  
(WITH COMPARATIVE BALANCES AT JUNE 30, 2003)

	2004 Amended Budget	2004 Actual	Actual Over (Under)	2003 Actual
<b>Generation Expense (continued)</b>				
Maintenance				
Labor	\$ 260,000	\$ 268,099	\$ 8,099	\$ 193,388
Payroll taxes and fringes	116,500	108,438	(8,062)	91,898
Structures	-	2,342	2,342	3,981
Ash hauling	1,500	450	(1,050)	786
Coal storage	-	50	50	-
Coal dock	1,500	1,401	(99)	6,129
Furnaces and boilers	3,500	109	(3,391)	11,817
Boiler apparatus	-	341	341	1,534
Steam piping	-	262	262	-
Wind generator	12,500	5,896	(6,604)	6,765
Boardman River	6,000	5,305	(695)	820
Brown Bridge	86,000	29,151	(56,849)	10,702
Professional development	-	-	-	338
Prime movers - generators	-	185	185	4,106
Accessory electrical equipment	8,000	4,806	(3,194)	1,762
Auxiliary power plant equipment	1,520,000	89,096	(1,430,904)	14,067
Water pumps - steam plant	1,000	-	(1,000)	203
Small tools	2,500	2,327	(173)	2,597
Sabin Dam	63,500	10,280	(53,220)	10,857
Boardman Dam	122,000	92,980	(29,020)	16,427
Elk Rapids Dam	(9,500)	(12,492)	(2,992)	(14,626)
Equipment rental	31,000	27,003	(3,997)	25,735
Equipment fuel	5,000	6,633	1,633	6,040
Elevator	1,200	1,124	(76)	2,092
Miscellaneous	13,000	9,488	(3,512)	13,852
<b>Total generation maintenance expense</b>	<u>2,245,200</u>	<u>653,274</u>	<u>(1,591,926)</u>	<u>411,270</u>
<b>Total generation expense</b>	<u>15,287,850</u>	<u>14,454,945</u>	<u>(832,905)</u>	<u>13,437,610</u>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL ( CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2004  
(WITH COMPARATIVE BALANCES AT JUNE 30, 2003)

	2004 Amended Budget	2004 Actual	Actual Over (Under)	2003 Actual
<b>Distribution Expense</b>				
Operating				
Labor	\$ 150,000	\$ 140,520	\$ (9,480)	\$ 139,209
Payroll taxes and fringes	92,300	84,047	(8,253)	78,482
Professional development	30,000	47,780	17,780	32,955
Office supplies	5,000	7,401	2,401	6,694
Utilities	30,000	51,114	21,114	42,275
Equipment rental	126,500	66,825	(59,675)	65,022
Equipment fuel	9,200	11,006	1,806	9,610
Miscellaneous	30,000	23,532	(6,468)	21,989
<b>Total operating expense</b>	<b>473,000</b>	<b>432,225</b>	<b>(40,775)</b>	<b>396,236</b>
Maintenance				
Labor	700,000	982,369	282,369	701,074
Payroll taxes and fringes	371,500	436,880	65,380	329,331
Substation	51,600	70,510	18,910	54,449
Lines	218,000	212,221	(5,779)	90,409
Poles and fixtures	40,000	43,766	3,766	39,551
Conductors and devices	10,000	803	(9,197)	6,083
Underground cabling	33,000	35,323	2,323	18,951
Transformers and devices	29,000	12,933	(16,067)	23,936
Services	6,000	8,254	2,254	1,068
Meters	20,000	18,865	(1,135)	10,510
Street lighting	25,000	29,590	4,590	11,715
Equipment Rental	126,500	66,478	(60,022)	40,141
Radio equipment	5,000	2,512	(2,488)	11,443
Equipment fuel	9,500	11,144	1,644	9,649
Maintenance - building and grounds	24,700	68,959	44,259	85,500
Small tools	20,000	17,926	(2,074)	11,536
Miscellaneous	27,000	29,676	2,676	33,969
<b>Total maintenance expense</b>	<b>1,716,800</b>	<b>2,048,209</b>	<b>331,409</b>	<b>1,479,315</b>
<b>Total distribution expense</b>	<b>2,189,800</b>	<b>2,480,434</b>	<b>290,634</b>	<b>1,875,551</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL ( CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2004  
(WITH COMPARATIVE BALANCES AT JUNE 30, 2003)

	<b>2004</b>			
	<b>Amended</b>	<b>2004</b>	<b>Actual</b>	<b>2003</b>
	<b>Budget</b>	<b>Actual</b>	<b>Over (Under)</b>	<b>Actual</b>
Customer Accounting Expense				
Salaries	\$ 145,000	\$ 155,740	\$ 10,740	\$146,412
Meter reading	90,000	71,429	(18,571)	59,716
Payroll taxes and fringes	86,500	68,054	(18,446)	57,750
Office supplies	2,000	2,349	349	2,152
Postage	28,000	29,350	1,350	27,305
Stationary and printing	12,000	6,239	(5,761)	10,090
Equipment rental	6,000	5,600	(400)	4,475
Uncollectible accounts	60,000	8,952	(51,048)	11,240
Collection expense	1,000	2,630	1,630	377
Data processing	35,000	30,625	(4,375)	36,028
Professional development	1,500	1,637	137	1,610
Miscellaneous	11,000	9,159	(1,841)	9,965
<b>Total customer accounting expense</b>	<b>478,000</b>	<b>391,764</b>	<b>(86,236)</b>	<b>367,120</b>
Public Service Expense				
Public service information	308,850	260,341	(48,509)	292,537

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL ( CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2004  
(WITH COMPARATIVE BALANCES AT JUNE 30, 2003)

	2004 Amended Budget	2004 Actual	Actual Over (Under)	2003 Actual
General Administration Expense				
Salaries	\$ 335,000	\$ 350,617	\$ 15,617	\$ 309,905
Payroll taxes and fringes	128,500	131,396	2,896	110,384
Professional development	28,000	57,941	29,941	29,963
Office supplies	5,000	9,191	4,191	4,123
Fees and dues	50,000	49,239	(761)	44,914
Special services	80,000	210,536	130,536	65,798
Legal fees	140,000	161,590	21,590	148,117
Telephone	5,000	4,690	(310)	4,969
Rent	9,000	880	(8,120)	8,577
Miscellaneous	5,000	15,229	10,229	6,248
<b>Total general administration expense</b>	<b>785,500</b>	<b>991,309</b>	<b>205,809</b>	<b>732,998</b>
Other expenses				
Insurance - general	280,000	189,558	(90,442)	204,695
Depreciation and amortization	1,188,000	1,528,204	340,204	1,234,609
City fee	1,080,000	1,156,695	76,695	1,048,355
Interest expense	37,000	29,808	(7,192)	42,968
<b>Total other expenses</b>	<b>2,585,000</b>	<b>2,904,265</b>	<b>319,265</b>	<b>2,530,627</b>
<b>Total expenses</b>	<b>21,635,000</b>	<b>21,483,058</b>	<b>(151,942)</b>	<b>19,236,443</b>
<b>Net income</b>	<b>\$ 612,400</b>	<b>\$ 1,725,122</b>	<b>\$ 1,112,722</b>	<b>\$ 3,284,452</b>